War Food Administration
Extension Service

FARM LAND VALUES AND A SOUND INVESTMENT PROGRAM*

Seldom does agriculture have the opportunity that exists today to put its financial house in order. The net returns to farm operators are the highest in history, averaging about $9.4 billion for the 3 years 1941-43. This is twice as much as the average for the 5 years, 1935-39, preceding the outbreak of war. Ordinarily the requirements for paying debts and living expenses leave little for new investments or for improving the level of living. For this reason every effort must be made to insure that the present high incomes are used in a manner that will lead to a permanent improvement in the financial position of farmers.

Once before in this generation, from near the close of World War I until shortly after its end, incomes were unusually high. But much of this income, instead of being used to build financial reserves for less prosperous times and to improve the level of living of the family, was spent to buy land at inflated prices, often by using large amounts of credit in the form of short-term mortgages and other loans. After prices dropped sharply in 1920-21 many farmers could not meet their obligations and consequently lost the savings of a lifetime. It is estimated that there were approximately 2 million farm foreclosure sales between 1922 and 1940. Others who did not lose their farms were forced to sacrifice the level of living of their families in order to "hold on." Thus, the higher incomes, instead of leading to an improved position for farm people, encouraged them to make long-term commitments which frequently ended in serious financial hardships and losses, and a lower level of living over an extended period.

Buying a farm on credit at inflated prices is, of course, not the only way that farm earnings are dissipated. Paying $10,000 cash for a farm that will bring only $7,000 a few years later is a mistake of such importance that it cannot be ignored by the investor or by those interested in the welfare of rural people. Spending excessive sums for purebred livestock, buying unnecessary machinery, or investing in worthless stocks and bonds are also familiar examples of poor investments that should be prevented, if possible. However, the average amount spent on these items is commonly much less than on real estate. For this reason major concern is directed to the current situation with respect to farm land values in an effort to appraise the extent to which we are repeating previous mistakes.

Some Encouraging Facts

To date the majority of farmers have used their extra wartime earnings wisely. Debts are being reduced, and financial reserves are being accumulated. For example, the farm mortgage debt was estimated at $5.6 billion on January 1, 1944. This is 13 percent less than on January 1, 1942, and is the lowest for any year since 1916. Furthermore, at the present time about one-half of all voluntary sales of farm real estate are entirely for cash. In addition to this, the index of demand deposits in country banks was 340 in May 1944 compared with 121 for the year 1940. Farmers' liquid reserves in the form of currency deposits and war bonds were estimated to be about 12 billion dollars on January 1, 1944. However, this unprecedented amount of liquid funds indicates that the decisions regarding the disposition of large amounts of savings are yet to be made. A major question is whether these savings, along with borrowed funds, will be used to finance another land boom.

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The Disturbing Facts

In spite of the fact that farmers generally have a good record thus far in the use of their wartime earnings, current developments raise serious doubts as to how long this record will be maintained. The most important of these unfavorable developments are:

(1) Farmers are continuing to purchase land at higher prices in spite of the fact that much of the period of high wartime earnings is past. For the country as a whole farm real estate values went up 15 percent during the 12 months ending July 1, 1944, and are now 42 percent above the 1935-39 average. Thus, on the average, it now takes $14,000 to buy a farm that could have been purchased for $10,000 before the war. In 18 States land values were more than 50 percent above their pre-war levels on July 1, 1944, while there were but 7 States in which the advance has been less than 20 percent. In more than one-fourth of the States present values are above their 1919 levels.

(2) Some farmers are incurring heavy debts to buy land. About one-sixth of all sales involve mortgages of 75 percent or more of the sale price. Thus, in many of these cases the new mortgage probably exceeds the pre-war sales price of the property.

(3) The number of farm resales to realize a profit after a limited period of ownership is tending to increase in most of the principal farm areas. During the first half of 1944 somewhat over one-tenth of all sales in 80 selected counties were resales of farms held less than 2 years.

Future Agricultural Income

The primary consideration in appraising the seriousness of the present situation is the level of agricultural income in the future. There is probably little point in making an estimate of such income in absolute terms since it depends on the assumptions made with regard to a number of things, including the general price level, industrial employment, international trade, and various governmental policies directly affecting agriculture. However, there are some important facts in the situation which raise the question as to whether land values in most areas are not now at levels as high, if not higher, than can be maintained in the post-war years. The more important of these facts are:

(1) Agricultural surpluses appear as a distinct possibility after the war. In the first place, production is now at record levels with the volume of food for sale and farm use in 1944

Europe for a period of 5 or 6 years. How much food and fiber exports Europe will absorb in the future depends on our foreign trade policy. * * * If we continue a policy of economic isolation, we had better write off the European food market in the future."

(2) Furthermore, technological developments may increase the output per acre substantially. It is estimated that by 1950 average yields will increase by about 10 to 12 percent above the pre-war average.1/ Milk production per cow and egg production per hen may be expected to increase by 5 percent, while the efficiency in utilizing feed by other animals may improve by 2-1/2 percent.

Allowing for only moderate improvements in technology, the Bureau of Agricultural Economics has concluded that with full employment our production requirements in 1950 could be met by cultivating 320 million acres of cropland. This compares with 351 million acres in 1943 and an estimated 374 million acres in 1944.

(3) The possibilities of adding millions of acres of productive land to our total supply by irrigation, drainage, and clearing should not be overlooked.

There are other facts which might be mentioned, such as the tendency for more of the world's food needs to be produced in other exporting countries and the release of more land for the production of human foods as tractors continue to replace horses and mules. However, the facts presented raise considerable doubt as to whether even the markets provided by a high national income and by an increasing population will be able to absorb the future agricultural output at prices high enough to give a net return that will support present land prices.

A most sobering fact in this connection is that if farm land values are from 40 to 50 percent above the 1935-39 average at the end of the war (now 42 percent above) future levels of land earnings would need to approximate those of the 1925-29 period in order for such values to be supported. Although factors other than prices received affect net returns, it is highly significant that during this 1925-29 period the index of prices received by farmers averaged 149. This level of prices apparently was able to support land values at a level about equal to that prevailing at the present time. For purposes of comparison, it should be noted that during the 5 years, 1935-39, the index of prices received by farmers averaged 107. Thus it seems clear that present land prices already reflect an optimistic view that post-war prices and returns will be considerably above those prevailing in the pre-war years 1935-39.

A Sound Program

In view of the relatively high level of farm real estate values, and considering the post-war prospects for farm prices and returns, what policies should be followed in utilizing farm earnings?

1/ Testimony before the George Committee by Bushrod Allin, BAE, May 11, 1944.

Before buying more land:

(1) Pay off present indebtedness, starting with the short-term loans. In most cases it would be a serious mistake for a farmer to go into the post-war period with more indebtedness than he had when the war started.

(2) Improve the productivity of the farm land now owned to the extent possible under wartime conditions. In many cases investing in lime, fertilizer, erosion control, drainage, clearing, efficient buildings, and the like on the land now owned would be more profitable than buying additional land.

(3) Improve the house, furniture, and furnishings to the extent possible under wartime conditions and have the family's health checked periodically.

(4) Build a financial reserve in the form of war bonds equal to the estimated cost of the new machinery, buildings, and other farm improvements needed in the post-war years. The present high returns above cash expenses may often be deceptive to the farm family because many of the normal business expenditures must be postponed until materials and labor are available after the war.

(5) Do not neglect a reserve for improving the living conditions of the family and consider establishing an educational fund for the children.

(6) Provide some protection for the family in the form of life insurance. Attention should be given to buying a single-premium life policy and to making advance payments of premiums on insurance now in force. The usual insurance contract calls for a fixed payment in good times and bad in order to keep the insurance in force. For this reason care should be exercised to avoid contracting for more insurance than can be carried in years of low income.

In buying land:

(1) Consider carefully the net returns that can be expected from the land over a long number of years. What would the land be worth if the prices of agricultural products were to return to the prewar level, 1935-39? In that case it would be necessary to sell approximately 50 percent more butterfat, 60 percent more hogs, and 90 percent more potatoes to gross $5,000 than was necessary at 1943 prices; or how much could be paid if one takes a more optimistic outlook of post-war prices by assuming that they will be somewhere between the pre-war and the present wartime level? This is particularly important if the land is purchased on credit, but it should be considered also by cash buyers since there is a financial loss if the value falls, even though the title to the land is not actually lost.

(2) Distinguish carefully between any amount that is paid for noneconomic or aesthetic factors such as the arrangement of the house, the view, or the neighborhood, and the value based on the long-term earning power of the farm. The farm is a home as well as a business, but failure to separate carefully these two aspects often leads to financial difficulties.

(3) Base all mortgages on a conservative estimate of the value of the property -- preferably not over 50 and certainly not over 75 percent of its pre-war selling price. Avoid short-term mortgages. Instead obtain an amortized loan which contains a provision for making advanced payments on the principal when income permits.

(4) Avoid overexpansion. After an efficient-sized farm has been obtained, additional funds should usually be invested in war bonds and other high-grade investments for the purpose of diversifying risks and returns.